DAIMLER

Business Management & Administration
“Successful Alliance Management”

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University Stuttgart
# INTRODUCTION

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Mega trend in automotive industry: Cooperation between OEM

WHY DO WE COOPERATE?

Because sometimes it takes more than one to achieve your objectives!
The more scientific answer: Inter-organizational cooperation as one strategic instrument for a company to achieve its objectives

Examples of **strategic gaps:**
- Lack of resources (finance, human, etc.)
- Lack of competences / know-how
- Lack of size / bargaining power
- Poor market access
- Limited standardizing power
Cooperation are often referred to as being in the “middle” between market and hierarchy

Organizational forms in the corporate integration continuum

- **Market** “arm’s length transaction”
- **Ad-hoc Agreement**
- **Non-contractual Collaboration**
- **Non-equity, Contractual Alliance**
- **Equity Alliance**
- **Joint Ownership**
- **Merger & Acquisition**

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**Integration and need for control/coordination mechanism**

- Low → High

**Degree of uncertainty**

- Low → High

**Coordination by market**

- High → Low

**Degree of knowledge complementarity**

- High → Low

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Source: Adapted from Baldi (2013), p. 5; Zentes, Swoboda, Morschett (2005), p. 386
Strategic Alliances are a specific sub-set of contractual and equity arrangements

Forms of inter-organizational relationships

Strategic Alliances are voluntary, long-term, collaborations between two or more independent organizations, designed to achieve mutual and individual objectives by sharing and/or creating resources.

Source: Chart adapted from Kale, Singh (2009), p. 47; Definition adapted from: Tjemkes, Vos, Burger, (2012), p. 2
The Strategic Partnership between Renault-Nissan and Daimler has a hybrid relationship basis: cross-shareholding plus partnership contracts

Forms of inter-organizational relationships

- **Contractual Arrangements**
  - Traditional Contracts
  - Partnership Contracts
    - Joint R&D, Joint Manufacturing, Joint Marketing
    - Access of Mutually Complementary Assets or Skills
    - Standard Setting or R&D Firm Consortia
- **Equity Arrangements**
  - Existing Entity
    - Minority Equity Investment
  - New Entity
    - Joint Venture
      - 50-50 Joint Venture
      - Unequal Joint Venture
  - Dissolution of Entity
    - Wholly Owned Subsidiary
    - Merger or Acquisition

On group level the Partners have exchanged shares. The individual projects a based on partnership contracts.

Source: Chart adapted from Kale, Singh (2009), p. 47; Definition adapted from: Tjemkes, Vos, Burger, (2012), p. 2
Advantages should outweigh the disadvantages when deciding to engage into an alliance

Advantages and disadvantages of alliances

Advantages
- Access to resources
- Economies of scale
- Risk and cost sharing
- Access to (foreign) markets
- Learning
- Speed to market
- Reputation
- Neutralization or blocking competitors
- Assessing acquisition partner
- Flexibility

Disadvantages
- Loss of proprietary information
- Management complexities
- Financial and organizational risks
- Risk of becoming dependent
- Loss of decision autonomy
- Loss of flexibility
- Antitrust implications
- Learning barriers
- Long-term viability

Source: Modified from Tjemkes, Vos, Burgers (2012), p. 5-6
The motives for entering into an alliance can be clustered into five categories

Alliance mechanism

- Economies of Scale: Get size
- Economies of Speed: Increase speed
- Economies of Risks: Reduce risks
- Economies of Skills: Learn from another
- Economies of Scope: Enable variety

Five major motives to increase firm’s competitiveness through an alliance

Source: According to Theurl (2010), p. 317
Three collaboration types can be distinguished taking the industry and the level on the value chain of the partners into consideration

Types of collaboration direction

**Horizontal Cooperation**
Firms of the **same industry** and **same stage** of the **value chain** work together

**Vertical Cooperation**
Firms of **same industry** but **different stages** of the value chain work together

**Diagonal Cooperation**
Firms of **different industries** work together

Source: Definition according to Killich (2011), p. 18; Pictures: staralliance.com, media.daimler.com, cnet.com, bmwblog.com, autoevolution.com, apple.com, philips.com
Where you might cooperate

Major fields of collaboration along the value chain

Value chain: Design, Purchasing, Production, Marketing, Sales

Kind of collaboration:
- Research and/or Engineering Contract
- Joint Research and/or Engineering
- Engineering Contract
- Subcontracting/Bundling
- Manufacturing Agreements
- Expertise Contract
- Patent License
- Trademark License
- Joint Marketing
- Sales Agreements

Source: Modified from Schaan, Kelly (2006), p. 3
The typical alliance lifecycle can be divided in four phases: intra-organizational, inter-organizational, cooperation, and termination phase

Examples of the alliance lifecycle in alliance literature

<table>
<thead>
<tr>
<th>Intra-organizational phase</th>
<th>Inter-organizational phase</th>
<th>Cooperation phase</th>
<th>Termination phase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dyer, Kale, Singh (2001)</strong></td>
<td>Alliance business case</td>
<td>Alliance negotiation and governance</td>
<td>Alliance management</td>
</tr>
<tr>
<td></td>
<td>Partner assessment</td>
<td></td>
<td>Assessment</td>
</tr>
<tr>
<td></td>
<td>Partner selection</td>
<td></td>
<td>Termination</td>
</tr>
<tr>
<td><strong>Cools and Roos (2005)</strong></td>
<td>Align the alliance strategy</td>
<td>Negotiate the deal</td>
<td>Manage the alliance</td>
</tr>
<tr>
<td></td>
<td>Conduct a partner search</td>
<td></td>
<td>Evaluate performance</td>
</tr>
<tr>
<td><strong>Schaan and Kelly (2007)</strong></td>
<td>Strategic rationale</td>
<td>Negotiation</td>
<td>Implement a portfolio approach</td>
</tr>
<tr>
<td></td>
<td>Partner selection</td>
<td></td>
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<tr>
<td><strong>Kale and Singh (2009)</strong></td>
<td>Alliance planning</td>
<td>Alliance design</td>
<td>Post-formation management</td>
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<tr>
<td></td>
<td>Alliance formation</td>
<td></td>
<td>Alliance evaluation</td>
</tr>
<tr>
<td><strong>Tjemkes, Vos, Burger (2012)</strong></td>
<td>Alliance strategy formulation</td>
<td>Alliance negotiation</td>
<td>Alliance management</td>
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<tr>
<td></td>
<td>Alliance partner selection</td>
<td>Alliance design</td>
<td>Alliance evaluation</td>
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</tbody>
</table>

Source: See details in Reference section
Our understanding of the alliance lifecycle and related activities

Key task in the alliance lifecycle

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Selection &amp; Negotiation</th>
<th>Management of cooperation</th>
<th>Termination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other OEM / Supplier</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic rationale</td>
<td>Select partner</td>
<td>Negotiate the deal</td>
<td>Establish</td>
</tr>
<tr>
<td>Identify need for action</td>
<td>Screen potential partners</td>
<td>Assemble alliance team and formulate negotiation strategy</td>
<td>Select appropriate governance form using a selection framework</td>
</tr>
<tr>
<td>Compare cooperation to alternative strategy options</td>
<td>Conduct fit and risk assessment including check of compliance with anti-trust law</td>
<td>Meet in person to develop alliance roadmap</td>
<td>Incorporate relevant contractual provisions in alliance contract</td>
</tr>
<tr>
<td>Determine the optimal deal structure</td>
<td>Select best partner</td>
<td>Negotiate terms and codify in contracts</td>
<td>Management of day-to-day activities</td>
</tr>
<tr>
<td></td>
<td>Select and prepare key (negotiation) team members</td>
<td>Re-assess anti-trust compliance</td>
<td>Agree on supplementary management controls</td>
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<tr>
<td></td>
<td></td>
<td>Close the deal or stop negotiating</td>
<td>Develop implementation plan to execute the alliance</td>
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</tbody>
</table>

Source: Based on Tjemkes, Vos, Burger (2012); Cools and Roos (2005), p. 20
Alliance capability is a crucial company competence enabling successful alliances

Alliance capability

ALLIANCE CAPABILITY
Refers to a firm's ability to develop specific managerial routines to design, manage and terminate alliances successfully and better than their competitors

Alliance capability routines

**Coordination routines**
> Coordinate activities and resources with a specific alliance partner

**Transformation routines**
> Modify alliances over the course of the alliance process

**Proactiveness**
> Discover and act on new alliance opportunities faster than competitors

**Portfolio coordination**
> Identify interdependencies, avoid duplicate actions and produce synergies among firm’s individual alliances

Alliance capability instruments

**Alliance function / Alliance managers**
> Specialized support staff offering standardized know-how and know-what (5 roles: expert, advisor, knowledge manager, coach and network facilitator)

**Alliance training**
> Alliance specific training and learning, e.g. problem identification and solving techniques

**Alliance tools**
> Develop and apply supportive decision-making tools

**Third parties**
> External parties providing services to increase the chance of alliance success (e.g., legal experts, mediators or conflict resolution)

Source: Based on Tjemkes, Vos, Burgers (2012), p. 294-297
Marc Thomas | Lecture BM&A: Successful Alliance Management | 05/23/2014
A strong alliance reputation makes a company more attractive for potential partners and accelerates organizational learning through alliances.

Positive feedback loop of successful alliance capability development:

1. Favorable Alliance Experience (High Success Rate)

2. Growing Alliance “Brand” and Expanding Network of Contacts

3. Ability to Attract Quality Partners, Inside the “Deal Flow”

4. Accelerated Learning, Growing Confidence

Successful cooperation means coping with differences, building relationships and designing processes

Cooperating challenges according to RATHJE

Source: Daimler Corporate Academy (2011), p. 6; based on Rathje (2008), p. 10
Critical competences for alliance managers are related to: problem solving, coping with differences, process management and relationship building

Alliance manager’s cooperation competences

- Accepting differences
- Adopting a different perspective
- Willingness to compromise
- Coping with frustration
- Respect
- Willingness to learn

- Problem solving
  - Recognize conflict symptoms
  - Conduct root cause analysis
  - Implement appropriate measures

- Coping with differences
  - Acting in good time
  - Clarity of decision processes
  - Long-term view
  - Willingness to develop
  - Clarity of roles
  - Integration of human factors

- Process management
  - Information transparency
  - Demonstration of commitment
  - Preparing the relationship
  - Balance of advantage
  - Willingness to trust
  - Systematic relationship building

- Relationship building

Source: According to Daimler Corporate Academy (2011), p. 7
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Application of standardized alliance tools as part of alliance capability

Tools to use across the alliance lifecycle

<table>
<thead>
<tr>
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<tr>
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<td>Negotiate the deal</td>
<td>Establish</td>
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<tr>
<td>Strategic gap analysis</td>
<td>Partner screening form</td>
<td>Negotiation matrix</td>
<td>Alliance governance form guideline</td>
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<tr>
<td>Value chain analysis</td>
<td>Partner selection protocol</td>
<td>Needs- vs. wants checklist</td>
<td>Alliance communication infrastructure</td>
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<tr>
<td>Resource needed checklist</td>
<td>Partner fit framework</td>
<td>Negotiation procedure checklist</td>
<td>Alliance tools database</td>
</tr>
<tr>
<td>Resource vulnerability checklist</td>
<td>Partner database</td>
<td>Negotiation team checklist</td>
<td>Alliance management control guidelines</td>
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Our own experience indicates clear factors for successful cooperation some of which are confirmed by literature.

Key success factors for a cooperation along the lifecycle

<table>
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<tr>
<th>PHASE</th>
<th>KEY SUCCESS FACTORS</th>
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</table>
| **STRATEGIC RATIONALE**   | ▪ Derive cooperation areas systematically from business strategy including business case evaluation and risk assessment  
                          | ▪ Engage in partnership only in case benefits generated and risks involved justify additional complexity compared to alternative solutions (internal or external) |
| **SELECT PARTNER**        | ▪ High strategic and cultural fit between the partners                              
                          | ▪ Complementary capabilities, resources, and/or regional footprint                   
                          | ▪ Matching product portfolios                                                      |
| **NEGOTIATE & ESTABLISH** | ▪ Have a common vision of the partnership. Agree on fundamental values and convictions and have general rules and standards established  
                          | ▪ Share main assumptions and (realistic) targets of all partners clearly at the start of a project  
                          | ▪ Define clear decision processes and transparent working models including partners’ roles and responsibilities, rights and duties with no room for ambiguity  
                          | ▪ Create win-win scenario with contributions, benefits and risks well balanced between the partners  
                          | ▪ Ensure top management attention. Provide an alliance governance that ensures the likelihood of attaining alliance objectives, prevents from exchange hazards, and enables flexibility to respond to unforeseen circumstances  
                          | ▪ Install processes and mechanisms to solve conflicts including arbitration board  
                          | ▪ Install dedicated alliance management function in each company governing all cooperation activities ideally reporting to C-level executive |
| **EXECUTE & EVALUATE**    | ▪ Staff the right people with a good network and strong reputation within partner’s organization  
                          | ▪ Create an atmosphere of trust and understanding and be open to learn from another  
                          | ▪ Define comprehensive set of KPIs for both your partnership and the cooperation projects; continuously evaluate your alliance performance and regularly assess your alliance strategy  
                          | ▪ Have the right supporting infrastructure in place (e.g., alliance management, IT) |
| **TERMINATE**             | ▪ Have termination rules and circumstances clearly defined at the beginning of the partnership and per project |

Source: Daimler AG; adapted from Hoffmann, Schlosser (2001), p. 365 and Breitschwerdt et al. (2011), p. 2
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Too often companies leak a clear strategic rationale when entering into negotiations on a strategic alliances

“Ready aim fire” procedure for strategic rationale

- Has the organization clearly identified the strategic importance an alliance will play?
- Is the organization culturally and structurally ready?
- Is the timing right?
- Is the organization prepared to commit the necessary resources?

Proceed to “Partner selection” step only in case all questions have been answered with “yes”
Make sure to apply the gate-stage procedure to have a sound strategic basis for an alliance before entering into the partner selection phase.

Decision process in determining the strategic rationale for an alliance:

1. **Strategic Importance**
   - What is our strategy?
   - What are our capability gaps that will prevent us from achieving our objectives?
   - Is an alliance the best alternative? Why?
   - What do we expect an alliance to achieve?
   - Exactly how does that support our strategy?

2. **Organizational Readiness**
   - Do we have (positive) experience in collaboration?
   - Are our organizational practices conducive to collaboration?
   - Does our company have healthy communications?
   - Do we promote organizational learning?
   - Do we have strong project management skills? Do we promote team based work?
   - Do we have someone with the right technical and relational skills to manage an alliance?

3. **Timing**
   - Is it the right time?
   - Can we do it later?
   - What is the opportunity cost of doing it now?

4. **Commitment**
   - Will managing an alliance jeopardize our core operations?
   - Do we have the funds to pursue and engage in an alliance over the long term?
   - Do stakeholders support it?

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Content

1 Introduction to Strategic Alliances

2 Strategic Rationale

3 Partner selection

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6 Execute

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8 Terminate

9 Summary
Two types of “Partner Fit” can be distinguished: Resource complementarity and Compatibility of the partner firms

Types of partner fit

### Resource complementarity

**CONCEPT**
- Resource complementarity emphasize a value creation logic
- Mean to enhance alliance’s collaborative effectiveness
- Select a partner that creates higher relative fit between resource foundations and resource provisions

4 types of resource complementarity:
- Complementary resource alignment
- Supplementary resource alignment
- Surplus resource alignment
- Wasteful resource alignment

### Partner Fit

**CONCEPT**
- Partners’ compatibility refers to the degree to which partner firms share similar characteristics
- Compatibility facilities alliance processes and thus creates effectiveness through reinforcing collective strength

5 fits can be distinguished:
- **Strategic**: compatibility in strategic view and orientation
- **Organizational**: compatibility in partners’ organizational structures and routines
- **Operational**: compatibility in operational systems
- **Cultural**: compatibility in organizational culture
- **Human**: compatibility in employee’s background and experiences

### Compatibility

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- **Cultural**: compatibility in organizational culture
- **Human**: compatibility in employee’s background and experiences

Source: According to Tjemkes, Vos, Burgers (2012), pp. 30-36
Sketch the profiles of shortlist partners in a radar chart to compare their strengths and weaknesses

Example of a partner profile based on Eli Lilly and Company’s fit dimensions

Source: Illustrative example based on Futrell, Slugay, Stephens (2001), p. 9
Firms should use a systematic approach to select the partner(s) they want to enter into alliance negotiations

**DECISION-MAKING STEPS IN ALLIANCE PARTNER SELECTION**

1. **Develop partner profile**
   - Develop partner profiles based on alliance business case
   - Explain partner requirements in terms of desired:
     - resources,
     - markets,
     - technologies, etc.

2. **Long & short list of potential partners**
   - Conduct long and short lists of potential partners
   - Long list with overview of and insight into the number of alternative partners (e.g., bargaining power); short list including detailed information about potential partners and past alliance experience

3. **Develop partner fit framework**
   - Decide on partner selection criteria
   - Distinct types of partner fit (i.e., resource and compatibility), and attribute relative weight to each set of criteria

4. **Conduct partner analysis**
   - Gather internal and external information about potential partners
   - If necessary, engage in pre-negotiations to obtain and exchange information
   - Assess compliance with anti-trust law
   - Apply partner fit framework to assess potential partners on the short list and select preferred partner

5. **Risk assessment**
   - Conduct risk assessment of
     - potential non-performing resources,
     - misfits,
     - threats to competitive position
   - compliance with anti-trust law
   - Consider feasibility of corrective measures to deal with risks and threats

Source: Modified based on Tjemkes, Vos, Burgers (2012), p. 37
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Content

1 Introduction to Strategic Alliances

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Negotiation basics

Negotiation bandwidth and potential negotiation results

**Room for negotiation and ZOPA concept**

**NEGOTIATION BANDWIDTH**

<table>
<thead>
<tr>
<th>Termi-nation</th>
<th>Minimum</th>
<th>Still acceptable</th>
<th>Acceptable</th>
<th>Desirable</th>
<th>Optimum</th>
</tr>
</thead>
</table>

**ZOPA1 CONCEPT**

<table>
<thead>
<tr>
<th>Partner A</th>
<th>Optimum</th>
<th>Minimum</th>
<th>ZOPA</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Partner B</th>
<th>Optimum</th>
<th>Minimum</th>
</tr>
</thead>
</table>

**Potential results of a negotiation**

- **A** A wins – B wins

- **B** A wins – B loses

- **C** A loses – B loses

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1 Zone of Possible Agreement

Source: Based on Schmitz, Spiker, Schmelzer (2006), pp. 139, 145; Pfützenreuter (2009) p. 124

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Robust cooperation require win-win situations. In case of multiple projects with a partner at least the overall cooperation needs to be balanced.

Output matrix of negotiation results

### Negotiation result matrix

<table>
<thead>
<tr>
<th>Interests Party A</th>
<th>Interests Party B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Win A wins B loses</td>
<td>Lose A loses B losses</td>
</tr>
<tr>
<td>Win A wins B wins</td>
<td>Lose A loses B wins</td>
</tr>
</tbody>
</table>

### Remarks

- Generally, just **win-win negotiation results** provide a **stable basis** for a partnership (4). Field (1) is also considered as stable. A position in field (2) and (3) will not be accepted by “losing” party.

- However, when having multiple projects with the same cooperation partner single projects might be in field (2) or (3) as long as the partners consider the **entire partnership** being **balanced**.

Source: Chart according to Child, Faulkner, Tallman (2005), p. 130
The general agreements shall be settled in a Term Sheet/MoU. Further details and final agreements to be set forth in final contract

From NDA to final contract

1. Protect the content of the negotiation with a Non-Disclosure Agreement
2. Negotiate and sign Term sheet or Memorandum of Understanding (MoU)
3. Negotiate and sign Final Contract

**STANDARD CLAUSES OF A TERM SHEET / MEMORANDUM OF UNDERSTANDING / FINAL CONTRACT**

- Spirit of the venture or social contract
- Business plan and alliance objectives
- Scope and exclusivity (product, technology, country, and period)
- Governance form (non-equity or equity)
- Ownership (if applicable)
- Contributions (assets, business, services, technology, and people)
- Compensation mechanism (profits, royalties, dividends, intellectual property)
- Management structure (incl. right to appoint directors, authority given to managers)
- Roles, tasks and authority (incl. right to make decisions, decision-making procedures, consensus, consent)
- Protection of intellectual property rights
- Non-compete and exclusivity clauses (limit cooperation and/or results to certain products, technologies, markets, geographical areas)
- Adaption and contingency clauses
- Exit provisions (consequences and obligations on exit)
- Conflict resolution provisions (including third-party arbitration)
- Communication structure
- Location of operation
- Accounting principles and tax issues
- Governing law
- Third-party consent (e.g. antitrust, shareholder approval)

Source: Based on Tjemkes, Vos, Burgers (2012), p. 67
Negotiations for each alliance project are done by a “Business team”. The business team is headed by a member of the alliance office.

Daimler example of a negotiation team for a powertrain project.

Remarks

- **Business team is configured project specifically:**
  - Core/non-core members
  - Required functions

- **Main tasks include:**
  - Define project scope and business terms; align internally and get internal approval
  - Negotiate contracts with other firm’s counterpart and get contracts signed
  - Ensure seamless hand over to colleagues from same functional area taking over in “Establishing” or “Execution” phase, if any

1 This function usually covers Product Development function as well.
RASIC Charts as helpful to clearly state an commit to the responsibilities within an alliance project

Negotiation tool - RASIC chart

<table>
<thead>
<tr>
<th>Illustrative</th>
<th>Firm A</th>
<th>Firm B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base engine development</td>
<td>Design &amp; Validation</td>
<td>R</td>
</tr>
<tr>
<td>Adaption to vehicle</td>
<td>R</td>
<td>S, A</td>
</tr>
<tr>
<td><strong>Vehicle parts</strong></td>
<td></td>
<td></td>
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<tr>
<td>Carry over parts</td>
<td>Design &amp; Validation</td>
<td>R</td>
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<tr>
<td>Purchasing</td>
<td>R</td>
<td>S, A</td>
</tr>
<tr>
<td>New parts</td>
<td>Design &amp; Validation</td>
<td>S, A</td>
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<td>Purchasing</td>
<td>S, A</td>
<td>R</td>
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<td><strong>Software</strong></td>
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<td>R</td>
<td>S, A</td>
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<td><strong>Calibration</strong></td>
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<td>R</td>
<td>S, A</td>
</tr>
<tr>
<td><strong>Homologation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engine to meet regulation</td>
<td>R</td>
<td>S, A</td>
</tr>
<tr>
<td>Vehicle to meet regulation</td>
<td>S</td>
<td>R</td>
</tr>
<tr>
<td><strong>Prototype supply</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engine</td>
<td>R</td>
<td>S</td>
</tr>
<tr>
<td>Vehicle</td>
<td>S</td>
<td>R</td>
</tr>
</tbody>
</table>

**Explanation of RASIC**

- **Responsible**: Those who do the work to achieve the task and those who are ultimately answerable for the correct and thorough completion of the deliverable, task or milestone. There must be only one Responsible specified for each task or deliverable.

- **Approver**: In some cases an Approver has to agree to deliverable, task or milestone, even so the Approver is in no case answerable for the correct and thorough completion of complete deliverable or task, but the enabler to go ahead. Therefore, the Approver must sign off (Approve) and the Responsible has to negotiate for going ahead. There must be only one Approver specified for each deliverable, task or milestone.

- **Supporter**: Resources allocated to Responsible. Unlike Consultant, who may provide input to the task, Support will assist in completing the task.

- **Informed**: Those who are kept up-to-date on progress, often only on completion of the task or deliverable; and with whom there is just one-way communication.

- **Consultant**: Those whose opinions are sought, typically subject matter experts; and with whom there is two-way communication.
Alliance negotiations should create win-win situations. Successful alliance negotiations distinguish three negotiation stages

**DECISION-MAKING STEPS IN ALLIANCE NEGOTIATION**

1. **Assemble alliance negotiation team**
   - Assemble negotiation team members, including negotiation leader, alliance promoters, operational managers, and alliance managers
   - Designate advisors, including legal and financial

2. **Set the agenda and strategy**
   - Set negotiation agenda negotiation bandwidth; identify priorities and deal breakers; assess counterparts negotiation history; formulate negotiation strategy and tactics
   - Approach partner; sign, if required, a non-disclosure/confidentiality agreement

3. **Sharing information**
   - Engage in active information sharing, without hiding; be open and transparent without forcing the deal too early
   - Create mutual awareness of individual and common interests

4. **Assess compatibility and chemistry**
   - Focus on building a high-quality working relationship, as the negotiation climate shapes the operational working climate (Sic!)
   - Recognize and explicate (in)compatibilities in partners’ fit (see Partner selection section)

5. **Balance interests and consider trade-offs**
   - Formulate proposals and counterproposals and remain inquisitive about the counterpart’s interests
   - Propose creative trade-off solutions to resolve stalemates

6. **Document negotiation outcomes**
   - Document negotiation outcomes in a draft Memorandum of Understanding (MoU) / Term sheet (TS) with limited legal enforcement or a legal binding and enforceable contract
   - Conduct final assessment of negotiation process and outcomes in light of initial alliance objectives
   - Produce a definitive alliance contract or MoU / TS

Source: Modified from Tjemkes, Vos, Burgers (2012), p. 51
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### Content

1. Introduction to Strategic Alliances
2. Strategic Rationale
3. Partner selection
4. Negotiate the deal
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6. Execute
7. Evaluate
8. Terminate
9. Summary
In the “Establish” phase the partners strive to create an alliance design that fulfills clear objectives

Alliance design building

Alliance design objectives

- Increase the likelihood of attaining individual and collective objectives
- Create safeguards to reduce the impact of potential exchange hazards
- Increase partners’ ability to respond to unforeseen circumstances

Guiding questions:

- What is the most suitable governance form?
- What are the required contractual provisions?
- What are the supplementary management controls to be installed?

Source: According to Tjemkes, Vos, Burgers (2012), p. 59

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Establish an alliance structure that provides sufficient control to realize alliance objectives and prevent from exchange hazards

Governance form

**DEFINITION**

- Governance form consists of the configuration of an alliance’s structural building blocks, which aim to organize the partner's coordination and contractual enforcement legally.

- Align parties’ interests by creating incentive structure that stimulates the creation of long-term gains through cooperation, while reducing short-term gains from competition.

- Reduce likelihood of exchange hazards
  
    (i) Opportunistic behaviors and
    (ii) Misappropriation of benefits

- Contribute positively to the likelihood of superior alliance performance

**GOVERNANCE TYPES**

- Non-equity vs.
- Equity based

Source: According to Tjemkes, Vos, Burgers (2012), p. 59-60
The appropriate governance form shall be selected taking the alliance and/or the alliance project specific conditions into consideration

Key implications for governance form selection

<table>
<thead>
<tr>
<th>Non-equity Arrangement (NEA)</th>
<th>vs.</th>
<th>Equity Arrangement (EA)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FAVORABLE CONDITIONS</strong></td>
<td></td>
<td><strong>FAVORABLE CONDITIONS</strong></td>
</tr>
<tr>
<td>▪ Low opportunistic behavior is expected</td>
<td></td>
<td>▪ Moderate to high opportunistic behavior is expected. Opportunistic behavior penalties in reduced value of equity stake</td>
</tr>
<tr>
<td>▪ Limited alliance-specific investments are expected</td>
<td></td>
<td>▪ Moderate to high alliance-specific investments are expected. EA offers better protection against exploitation is offered</td>
</tr>
<tr>
<td>▪ Primarily supply of <strong>property-based resource</strong> is expected</td>
<td></td>
<td>▪ Primarily supply of <strong>knowledge-based resources</strong> is expected as better protection against knowledge leaks is provided</td>
</tr>
<tr>
<td>▪ Alliance is of <strong>moderate strategic importance</strong></td>
<td></td>
<td>▪ Alliance is of <strong>high strategic importance</strong>. EA better protects against unwanted transfer of critical resources</td>
</tr>
<tr>
<td>▪ Partners possess a history of collaboration</td>
<td></td>
<td>▪ <strong>No or limited history of collaboration</strong> with partner, because trust and inter-organizational routines have not yet developed</td>
</tr>
</tbody>
</table>

Source: According to Tjemkes, Vos, Burgers (2012), p. 75
Non-equity and equity-based arrangements provide clear advantages and disadvantages

### Non-equity and equity-based arrangements

<table>
<thead>
<tr>
<th>NON-EQUITY ARRANGEMENT</th>
<th>EQUITY ARRANGEMENT WITH CURRENT ENTITY</th>
<th>EQUITY ARRANGEMENT WITH NEW ENTITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DEFINITION</strong></td>
<td><strong>MINORITY SHARE</strong></td>
<td><strong>EQUITY SHARE</strong></td>
</tr>
<tr>
<td>Agreement based on formalized <em>alliance contract</em></td>
<td>Firm has less than 50% equity share</td>
<td>Both firms have 50% equity share</td>
</tr>
<tr>
<td><strong>PROS</strong></td>
<td>Less risk</td>
<td>Sharing cost and risk equally</td>
</tr>
<tr>
<td></td>
<td>Less organizational change and impact</td>
<td>Equal commitment and interests</td>
</tr>
<tr>
<td></td>
<td>Less need for alliance mgmt.</td>
<td></td>
</tr>
<tr>
<td><strong>CONS</strong></td>
<td>Lack of control</td>
<td>Complex control</td>
</tr>
<tr>
<td></td>
<td>Requires alliance management skills</td>
<td>Agreement needed at all decision points</td>
</tr>
<tr>
<td></td>
<td>Risk of opportunism</td>
<td>Loss of speed</td>
</tr>
<tr>
<td></td>
<td>Good preparation and negotiations needed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Less learning and synergy benefits</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Limited integration</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Keep own identity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Focus on activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Flexibility</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Easy exit</td>
<td></td>
</tr>
</tbody>
</table>

Source: According to Tjemkes, Vos, Burgers (2012), p. 63
The selected governance form can be augmented with contractual provisions, whose choice and content can alter the initial governance form.

Minimum provisions of an alliance contract

- Business plan or other adequate provisions specifying common and individual objectives
- Governance form: equity vs. non-equity
- Management structure: board representations, decision-making rights, veto decisions, alliance steering committee
- Partners’ resource contributions incl. property-based and knowledge-based
- Compensation mechanism, e.g. royalties, dividends, and lump sum payments
- Non-compete and exclusivity clauses specifying target market and the use of technologies
- Protection clauses, including intellectual property rights, patents and licenses
- Conflict resolution techniques such as arbitration and mediation
- Exit clauses, including triggers of termination and termination trajectories
- Regulations for accounting principles, contracts with existing customers and suppliers, employees and taxes

Source: Based on Tjemkes, Vos, Burgers (2012), p. 76
When having multiple projects with the same partner, standards and general rules allow effective alliance design and prevent opportunism.

Daimler's contract architecture for powertrain projects in Renault-Nissan alliance.

<table>
<thead>
<tr>
<th>Global and general agreements</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GCA General Cooperation Agreement</td>
<td>NDA Non Disclosure Agreement</td>
</tr>
<tr>
<td>MAE Master Advanced Engineering Agreement</td>
<td>MIA Master Investment Agreement</td>
</tr>
<tr>
<td>MDA Master Development Agreement</td>
<td>MAAS Master After Sales Agreement</td>
</tr>
<tr>
<td>Termination Agreement</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project specific agreements</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SAE Specific Advanced Engineering Agreement</td>
<td>SAA Supplier Approval Agreement</td>
</tr>
<tr>
<td>SDA / JDA Specific / Joint Development Agreement</td>
<td>SSA Specific Supply Agreement</td>
</tr>
<tr>
<td>TA Tooling Agreement</td>
<td></td>
</tr>
</tbody>
</table>

Source: Daimler AG
Use a multiple points of contract model in which the alliance partners mirror in such a way that each organizational level is represented

Alliance management control structure

Source: Modified based on Tjemkes, Vos, Burgers (2012), p. 72
Five step approach to formalize the outcomes of the negotiations designing the alliance in the “Establishing phase”

**DECISION-MAKING STEPS IN ALLIANCE ESTABLISHING PHASE**

1. **Negotiation and documentation**
   - Alliance negotiation and alliance design often executed concurrently
   - Prior to the definitive alliance contract, partners may create letter of intend or term sheet and confidentially agreement
   - Document results of due diligence

2. **Governance form**
   - Reapply an extended selection framework to decide on governance mode: non-equity or equity-based
   - Find delicate balance across negotiation, contracting and monitoring costs to protect interests and anticipated benefits
   - Furthermore, governance from selection should be aligned with contractual provisions and management control mechanism

3. **Alliance contract**
   - Incorporate all relevant contractual provisions into the contract, at least, clauses pertaining to coordination, contribution and compensation
   - More complete contracts are preferred. However, negotiation and monitoring costs should not outweigh the benefits

4. **Management control**
   - Design management control system (MCS) including:
     - control modes
     - degree of control, and
     - control focus
   - Agree and document MCS including:
     - different roles,
     - functions,
     - reporting lines,
     - meeting frequency, and
     - communication and reporting systems

5. **Alliance design & execution plan**
   - Design a structural configuration that embodies trade-off solutions between governance from, contractual provisions, and management control
   - Design decisions are formalized in an alliance contract or Memorandum of Understanding explicating the fundamental principles of the alliance
   - Develop an implementation plan to execute the alliance

Source: Modified based on Tjemkes, Vos, Burgers (2012), p. 74-77
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## Content

1. Introduction to Strategic Alliances
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6. **Execute**
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Execution phase – the ultimate challenge putting negotiation results into practice and work on the alliance project

Execution phase

Role of the Partners in “Execute” phase

- Deploy their resource contribution,
- Implement coordination mechanisms,
- Act on expressed commitments and
- Begin to execute the tasks assigned

Alliance Management in “Execute” phase

- Comprises both organizational and inter-organizational routines, systems and procedures to make an alliance respectively and alliance project work

OBJECTIVE

- Optimize conditions to
  - Enable communication,
  - Decision making,
  - Conflict resolution and
  - Alliance evaluation
  which in turn foster alliance performance

Alliance value creation potential is continuously at risk

Source: Based on Tjemkes, Vos, Burgers (2012), p. 81
Alliance Management and Project Management have to work hand in hand with a clear understanding of each others roles and responsibilities

Project and Alliance Management interaction in executing the alliance project

**DEFINITION & PLANNING**
- Project start
- Definition phase
- Concept phase
- Concept freeze
- Design phase
- Prototype/ test phase

**REALIZATION & STEERING**
- Tooling release
- Industrialization phase
- Off tool
- Try out

**SERIAL**
- SOP
- EOP
- Production
- Lifecycle management

**Contract management**
- Specific Advanced Engineering
- Joint Development Agreement
- Specific Supply Agreement

Source: Based on Daimler AG
Marc Thomas | Lecture BM&A: Successful Alliance Management | 05/23/2014
Conflicts in an alliance may result from exogenous sources, may be partner or intra-partnership caused.

Potential areas of threats in the execution phase of an alliance project:

**EXOGENOUS THREAT SOURCES**
- Industrial environment
- Political environment
- Competitors

**THREATS WITHIN ALLIANCE (PROJECT)**
- Task related (e.g., technical challenges, time or budget constrains)
- Relationship related (e.g., mistrust, miss communication, opportunism)

**PARTNER CAUSED THREATS**
- Corporate strategy shift
- Internal reorganization
- Transition in the firm’s executive management team

Only partner caused and relationship related conflicts are alliance inherent.
Trust can help to overcome critical situations and conflicts

Types of trust in alliance literature

- **Calculative**
  Belief that possible gains outweigh possible cost

- **Structural component**
  Mutual hostage situation
  e.g., resulting from alliance investments

- **Competence**
  Trust in partner’s resources and capabilities to meet contracted agreements

- **Deterrence-based**
  Utilitarian consideration of non-opportunistic behaviour because of costly sanctions

- **Behavioural component**
  Confidence about mutual reliability and integrity

- **Knowledge-based**
  Learning about each other through interaction

- **Goodwill**
  Belief that partners will not engage in opportunistic conduct

Source: Based on Tjemkes, Vos, Burgers (2012), p. 84
Parties should strive to settle conflicts on the lowest possible level. In case of a blocking situation they need to be escalated

Conflict management

Three resolution strategies:
- Decide on the matter
- Reject matter back with instructions to lower level, if any
- Escalate to next level or external arbitration

Source: Based on Tjemkes, Vos, Burgers (2012), p. 72, 85-87
Response strategies entail relationship-focused reactions used by alliance managers to resolve dissatisfying situations

The EVLN framework and typical response strategies behaviour

The EVLN framework of response strategies

<table>
<thead>
<tr>
<th>Active</th>
<th>Constructive</th>
<th>Destructive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exit or Opportunism</td>
<td>Voice</td>
<td></td>
</tr>
<tr>
<td>Neglect</td>
<td>Loyalty or patience</td>
<td></td>
</tr>
</tbody>
</table>

Response strategies behaviour

- **Exit**: most destructive response. No more possibility seen to deal effectively with the adverse situation.
  - **Opportunism**: active intention to benefit from alliance in ways explicitly or implicitly prohibited. Managers seek to improve their performance covertly.
- **Active voice**: persistent efforts regardless of partner’s ideas. Managers impose their view forcefully on counterparts, without necessarily trying to avoid a conflict.
  - **Creative voice**: constructive, unilateral voicing of novel and potentially useful ideas to overcome situation.
  - **Considerate voice**: Alliance managers consider their own concerns as well as those of their partner. Discussing the situation with the intention to develop mutually satisfactory solutions.
- **Loyalty or patience**: silently abiding the issue, with the hope of future improvements. Managers voluntarily ignore the issue and expect the adverse situation to resolve itself.
- **Neglect**: allowing the alliance to deteriorate. Neglectful alliance managers expend minimal effort in maintaining the partnership, and ignore possible ways to solve the situation, leading eventually to dissolution of alliance.

Choosing the appropriate response strategy requires an in depth understanding of relationship-destroying and relationship-preserving responses and their antecedents.

Source: Based on Tjemkes, Vos, Burgers (2012), p. 87-88
Follow the procedure to determine causes of dissatisfaction, develop appropriate responses, assess potential and execute corrective measures.

**DECISION-MAKING STEPS IN ALLIANCE EXECUTION PHASE**

1. **Management of day-to-day activities**
   - Communicate to everyone involved the principles and goals described in the implementation plan; focus on execution of:
     - tasks,
     - resource deployment,
     - monitoring,
     - supportive mgmt. styles, and
     - integration of activities
   - Invest in relational governance, engage in active conflict resolution, anticipate responses to adversity and encourage inter-partner learning

2. **Monitoring**
   - Monitor alliance progress in a timely manner to identify potential threats:
     - external threats and opportunities,
     - alliance performance,
     - relational processes,
     - changes in alliance partner’s environment
   - Monitor effect of prior interventions
   - Inform alliance management about monitoring results

3. **Corrective measures**
   - Decide on corrective measures; focus on maintaining:
     - progress,
     - flexibility,
     - opportunities,
     - resources,
     - customers, and
     - personnel
   - Corrective measures shape alliance development path. Thus, assess impact of changes in:
     - alliance design,
     - management, and
     - execution

4. **Intervention and communication**
   - Communicate with partner about intended corrective measure, preferably develop and implement adaptations together
   - Formulate and execute an intervention plan that features the nature, contend and magnitude of the changes
   - Formulate who is responsible for what and by when it will be implemented

**Source:** Modified based on Tjemkes, Vos, Burgers (2012), p. 74
Introduction to Strategic Alliances

Strategic Rationale

Partner selection

Negotiate the deal

Establish

Execute

Evaluate

Terminate

Summary
To maintain effective alliances, partners have to continuously evaluate alliance performance and decide to do nothing, adapt or terminate.

**Influences on Alliance Performance**
- Trust
- Partners’ complementarity, compatibility and commitment
- Governance mode
- Alliance capabilities

**Alliance Performance**
- **Definition**
  “Alliance performance is the extent to which the partnering firm achieves its objectives in a particular alliance by focusing on outcome as well as process measures.”
- **Multilevel** (partner vs. alliance level) and **multidimensional**
  - Economic
  - Strategic
  - Operational
  - Learning
  - Relational
- Requires balanced, comprehensive measurement

**Measurement Methods**

**Organizational Performance Measurement**
- **Cost accounting**
  - Short-term focused, internally oriented, unable to steer overall business
- **Balanced models** like SVA
  - Data often not available for an alliance

**Specific Methods for Alliance Purposes**
- **Alliance scorecard**
  - Based on Kaplan’s and Norton’s Balanced Scorecard concept
- **Diagnostic tools** as employee surveys (“health checks”)
  - E.g., Eli Lilly & Company’s spider web evaluations

---

1 Shareholder Value Analysis
Source: According to Pastowski (2011)
The classical BSC comprises four perspectives: financial, customer, internal business processes, learning and growth.

Excursus: classical Balanced Scorecard (BSC)

To succeed financially, how should we appear to our shareholders?

To achieve our vision, how should we appear to our customers?

To satisfy our shareholders and customers, what business process must we excel at?

To achieve our vision, how will we sustain our ability to change and improve?

Source: According to Kaplan, Norton (1996), p. 9
Alliance scorecard as an appropriate method to measure holistically multiple dimensions of alliance performance

Structural framework of the alliance scorecard

1. **Relationship Dimension**
   - is the base for collaboration on the

2. **Operational Dimension**
   - drives the

3. **Strategic Dimension**
   - results in

4. **Financial Dimension**

An alliance scorecard fulfills the following requirements:

- **Requirements**
  - assessment of an operating alliance
  - multidimensionality
  - outcome (lagging) & process (leading) measures
  - quantitative & qualitative measures
  - simplicity in implementation
  - flexibility / adaptability

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The Alliance Scorecard sets targets for financial, strategic, operational and relationship fitness, and measures their performance level

Example: Siebel System’s Alliance Scorecard (1/2)

---

**Financial fitness**

<table>
<thead>
<tr>
<th>Financial fitness</th>
<th>Goal</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall alliance revenue index</td>
<td>100</td>
<td>110</td>
</tr>
</tbody>
</table>

- Partner-led revenues: 40 | 45 |
- Siebel-led revenues: 50 | 50 |
- Joint revenues: 10 | 15 |
- Revenues from new business: 20 | 15 |

*Note: revenue goals vary across partner categories*

**Strategic fitness**

<table>
<thead>
<tr>
<th>Strategic fitness</th>
<th>Customer loyalty index</th>
<th>9.5 out of 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance dimensions</td>
<td>Positive responses</td>
<td></td>
</tr>
<tr>
<td>- Satisfaction with product performance</td>
<td>94%</td>
<td></td>
</tr>
<tr>
<td>- Satisfaction with integration of 3rd-party systems</td>
<td>93%</td>
<td></td>
</tr>
<tr>
<td>- Satisfaction with implementation effectiveness</td>
<td>97%</td>
<td></td>
</tr>
</tbody>
</table>

*Note: based on biannual ~100-question customer survey that contains ~5 alliance questions*

**Operational fitness**

<table>
<thead>
<tr>
<th>Operational fitness</th>
<th>Management by objectives</th>
<th>Goal</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing investment (percent of annual goal)</td>
<td>50%</td>
<td>65%</td>
<td></td>
</tr>
<tr>
<td>Number of partner's staff trained</td>
<td>42</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Number of joint sales calls</td>
<td>25</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Number of marketing events to generate demand</td>
<td>10</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Number of weekly pipeline calls</td>
<td>5</td>
<td>7</td>
<td></td>
</tr>
</tbody>
</table>

*Note: based on quarterly plan developed jointly by Siebel and partner; includes financial objectives, such as key revenue metrics shown above in “financial fitness”*

**Relationship fitness**

<table>
<thead>
<tr>
<th>Relationship fitness</th>
<th>Partner satisfaction</th>
<th>Partner allegiance index</th>
<th>8.5 out of 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance dimensions</td>
<td>Score (0–10)¹</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Alliance management</td>
<td>8.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Sales engagement</td>
<td>8.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Alliance marketing</td>
<td>6.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Product marketing</td>
<td>9.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Integration, validation</td>
<td>9.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Training</td>
<td>7.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Global services</td>
<td>9.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note: based on quarterly >80-question partner-satisfaction survey*

---

¹Siebel uses this information to calculate gap score (importance of dimension to partner – Siebel performance = gap score); gaps of 2.0 or higher require action plan by alliance manager; performance in applying this plan is monitored by Siebel and senior executives of partner's company.

Source: Bamford, Ernst (2002), p. 34

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The Alliance Scorecard sets targets for financial, strategic, operational and relationship fitness, and measures their performance level.

Example: Siebel System’s Alliance Scorecard (2/2)

<table>
<thead>
<tr>
<th>Goal</th>
<th>Metric</th>
<th>Results, Q2 2002</th>
<th>Met</th>
<th>Med</th>
<th>Exceeded</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial fitness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase alliance revenues</td>
<td>Product sales growth</td>
<td>15%</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce overlapping costs</td>
<td>Reduction in overhead costs</td>
<td>19%</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase parent revenues</td>
<td>Related product sales</td>
<td>$80 million</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase/create growth options for parent</td>
<td>Embedded option value</td>
<td>50% chance of building $500 million business in 3 years</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategic fitness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop new technology</td>
<td>Technology milestones</td>
<td>Met first milestone; on target for next hurdle (see progress update)</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase learning of parent</td>
<td>Number of parent staffers on development teams</td>
<td>Fair (fewer staff rotations in marketing than expected; engineering on target)</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase share of target customers</td>
<td>Market share</td>
<td>20%</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase brand equity of alliance products</td>
<td>Recognition/satisfaction surveys</td>
<td>40% recognition among key customers</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operational fitness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hit key operating goals</td>
<td>Operational milestones</td>
<td>8 of top 10 operating milestones met or exceeded</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce manufacturing/sales costs</td>
<td>Cost of goods sold</td>
<td>$39 per unit</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Optimize alliance management and coordination time</td>
<td>Time spent by management, staff</td>
<td>45 person-days at appropriate management level</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Relationship fitness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Make fast and effective decisions</td>
<td>Decision-making rating</td>
<td>6: slow to agree on pricing strategy</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Build and maintain trust</td>
<td>Trust rating</td>
<td>8: generally high across teams</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communicate effectively</td>
<td>Communications rating</td>
<td>7: acceptable, but need more informal communication</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensure senior management involvement</td>
<td>Senior-management attention rating</td>
<td>9: good attention, no intervention needed</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Define partner roles clearly and leverage unique skills</td>
<td>Role-clarity rating</td>
<td>7: marketing support of Parent A not yet defined</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Based on 10-point scale where 10 = truly outstanding, 6 = subpar; scores derived from annual partner survey of key staff in both companies.

Source: Bamford, Ernst (2002), p. 33
Daimler’s alliance performance assessment is categorized into four dimensions: financial, strategic, operational and relationship

Alliance performance assessment

**Strategic Goals**
- Reduced cost and investment
- Better access to new markets and segments
- Increased speed and time-to-market

**Enabling Functions**
- Projects & Processes
- Alliance competence, capability, and external perception

**Dimensions**
1. **Financial Dimension** (twice a year)
2. **Strategic Dimension** (twice a year)
3. **Operational Dimension** (quarterly)
4. **Relationship Dimension** (annually)

Source: Daimler AG
Regularly evaluate the performance of the entire cooperation as well as of the individual projects and take action if necessary

Daimler’s four dimensional Alliance Performance Assessment

- Overall assessment of the balance of financial contribution and risk sharing between the partners
- Assessment of the financial performance of the individual projects

- Regular performance reviews of each project based on comprehensive KPI set within responsible Product Group
- Top management review across all projects

**Financial dimension**

- Further synergies
- Avoided investment
- Savings
- Additional business

**Operational dimension**

**Strategic dimension**

- Check regularly whether strategic alliance objectives are met for all partners
- Further develop alliance strategy if considered beneficial and/or necessary due to changed environment

**Relationship dimension**

**INSIDE VIEW**

- Annual survey amongst all employees\(^1\) working within the cooperation

**OUTSIDE VIEW**

- Annual analysis of media tonality on cooperation

---

\(^1\) Employees working at least 50% for the alliance
In assessing the operational performance Daimler uses a simple traffic light logic to report on the overall maturity of the projects.

**Operational dimension - Maturity of alliance projects**

<table>
<thead>
<tr>
<th>Alliance Partner A</th>
<th>Alliance Partner B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RED</strong></td>
<td></td>
</tr>
<tr>
<td>• Project objectives are <strong>not fulfilled</strong>.</td>
<td></td>
</tr>
<tr>
<td>• Deficits exist that <strong>endanger</strong> the existing project objectives.</td>
<td></td>
</tr>
<tr>
<td>• There is <strong>no secured Action Plan</strong>.</td>
<td>Project Delta</td>
</tr>
<tr>
<td><strong>YELLOW</strong></td>
<td></td>
</tr>
<tr>
<td>• Project objectives are <strong>not fulfilled</strong>.</td>
<td>Project Beta</td>
</tr>
<tr>
<td>• Deficits exist which can be made up within the given project scope.</td>
<td>Project Gamma</td>
</tr>
<tr>
<td>• There is a <strong>secured Action Plan</strong>.</td>
<td>Project Brian</td>
</tr>
<tr>
<td><strong>GREEN</strong></td>
<td></td>
</tr>
<tr>
<td>• Project objectives are <strong>fulfilled</strong>.</td>
<td>Project Alpha</td>
</tr>
<tr>
<td>• <strong>No</strong> known <strong>deficits</strong>, all <strong>targets met</strong>, maybe with small deviations.</td>
<td>Project Epsilon</td>
</tr>
<tr>
<td></td>
<td>Project Candidce</td>
</tr>
<tr>
<td></td>
<td>Project Dean</td>
</tr>
</tbody>
</table>
Alliance health check: Use a radar chart to compare the perception of the relationship dimension of the partners and its development over time

Relationship dimension

Source: Illustrative example, relationship dimension categories according to Pastowski (2011), p. 38

Marc Thomas | Lecture BM&A: Successful Alliance Management | 05/23/2014
Analyze regularly the stage of organizational development towards Cooperation Excellence and introduce appropriate improvement measures

Maturity Model of Cooperation Excellence

Cooperation is ...

1. ... a bother
   - Work in cooperations keeps us from concentrating on our core business

2. ... inevitable
   - Work in cooperations cannot be avoided but does not belong to our core business

3. ... a success factor
   - Cooperation provides an opportunity to gain important competitive advantages

4. ... way of life
   - Work in cooperations represents an integral part of our daily operations

Coping with differences
- Threat
- Exception
- Ball and chain
- Bargaining
- Neglect
- Perception
- Suppression

Process management
- Challenge
- Priority
- Exchange
- Reaction
- Anticipation

Relationship building
- Chance
- Core task
- Belonging
- Perception

Source: Modified from Daimler Corporate Academy (2011), p. 9
Systematic framework for setting up a balanced alliance performance metric system

**DEcision-Making Steps in Alliance Evaluation**

1. **Design performance metric system**
   - Develop generic performance metric system to benchmark alliances and transfer experiences across the firm
   - Use generic metric templates to formulate tailored performance metrics consistent with alliance objectives and other alliance characteristics

2. **Implement performance metric system**
   - Decide about nature and content of metrics:
     - qualitative,
     - input,
     - process,
     - output,
     - single or multiple indicators, and
     - unilateral or shared with partner
   - Formulate procedures in terms of:
     - frequency,
     - communication,
     - decision-making authority, and
     - possible actions in case of under- and over-performance

3. **Interpret metric outcomes**
   - Document and report evaluation outcomes in line with stakeholders’ requirements
   - Decide to:
     - continue alliance without intervention,
     - continue alliance with intervention, or
     - terminate alliance

4. **Assess performance metric system**
   - Access the efficiency and effectiveness of the performance metric systems and, if needed, develop and implement new performance metrics
   - Based on prior experiences, improve the generic performance metric templates in terms of:
     - metrics,
     - norms, and
     - procedures

Source: Based on Tjemkes, Vos, Burgers (2012), p. 109
Content

1 Introduction to Strategic Alliances

2 Strategic Rationale

3 Partner selection

4 Negotiate the deal

5 Establish

6 Execute

7 Evaluate

8 Terminate

9 Summary
Many academics and practitioners equate termination with failure and longevity with success. We have a different perspective.

An alternative perspective on alliance termination:

**Alliance termination as a success**

**ENDED INTENTIONALLY**
- Initial **alliance purpose** achieved
- **Aim** for relationship **no longer exists**
- Alliance **goals met**

**TERMINATION TRAJECTORIES**
- Termination on **preset date** or
- **Mutual agreed** termination when initial purpose fulfilled
- Partners **accommodating** each other’s exit

**ROLE OF ALLIANCE MANAGER**
- Dismantle financial and organizational relationship
- Recover alliance-specific investments

**Alliance termination as a failure**

**ENDED UNINTENTIONALLY**
- **Premature** alliance termination, e.g. due to insufficient value creation or share of value perceived unfair relative to contributions
- Three **general factors**: Structural deficiencies, process deficiencies or unforeseen external circumstances

**TERMINATION TRAJECTORIES**
- **Unilateral, unintended** termination creating **tension and conflict**
- Disagreement on alliance termination may require arbitration by an outside party (mediate) or resort to litigation (litigate)

**ROLE OF ALLIANCE MANAGER**
- Value and redistribute tangible and intangible assets
- Safeguard own firm against reputation damages

Source: Based on Tjemkes, Vos, Burgers (2012), p. 117
Marc Thomas | Lecture BM&A: Successful Alliance Management | 05/23/2014
Handle alliance termination as an intrinsic part of the alliance lifecycle in a structured and professional way

**DECISION-MAKING STEPS IN ALLIANCE TERMINATION PHASE**

1. **Assessment and initiation**
   - Assess performance of alliance with a focus on early warning signs, e.g.:
     - frequent references to alliance contract,
     - opportunism,
     - outcome discrepancies
   - Initiate termination trajectory and inform top management
   - Assess exit provisions
   - Identify recoverable resources, knowledge and investments
   - Access exit costs and impact on reputation

2. **Dyadic communication**
   - Communicate intention to terminate the alliance to partner, either directly or indirectly
   - Reconciliation may still be an alternative (revocable exit) but requires
     - discussions,
     - negotiation and changes in partner’s firm behaviour,
     - alliance design or management

3. **Disengagement**
   - Select termination strategy:
     - accommodated,
     - mediated or
     - litigated exit
   - Prepare reintegration of alliance activities in own organization
   - Quantify, valuate and recover investments and communicate termination to internal and external stakeholders to prevent damage to firm’s reputation

4. **Aftermath**
   - Inform broader network about alliance termination
   - Evaluate alliance termination trajectory in terms of outcomes and processes
   - Codify and communicate learning experiences across the organization

Source: Modified based on Tjemkes, Vos, Burgers (2012), p. 123
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Content

1 Introduction to Strategic Alliances

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9 Summary
A cooperation is one mean to achieve a company’s strategic objectives. Strategic alliances are a specific subset of inter-firm’s cooperation.

An alliance lifecycle comprises four characteristic phases:
- the intra-organizational phase in which each firm identifies an alliance to be the appropriate mean to achieve company’s objectives,
- the inter-organizational phase were the preferred alliance partners are identified and negotiations on the strategic alliance are carried out
- the cooperation phase in which the strategic alliance is established, executed and evaluated, and
- the termination phase in which the cooperation is terminated either mutually or unilaterally

Building strong alliance capabilities including a dedicated alliances function and alliance managers is a key success factor because
- companies with a strong reputation are more attractive for potential partners and
- will enjoy higher alliance success rates.

Key to maintain effective alliances, is a continuous, ideally jointly done, evaluation of the alliance performance. These information are crucial to decide on to (i) do nothing, (ii) adapt or (iii) terminate the partnership.

First and foremost, successful alliance management is a people business.
Thank you for your attention!
Further reading

Bamford, J. D.; Gomes-Casseres, B.; Robinson, M. S.

Child, J.; Faulkner, D.; Tallman, St. B.

Schaan, J.-L.; Kelly, M. J.

Tjemkes, B.; Vos, P.; Burgers, K.
References (1/2)


References (2/2)


Thomson, D.; Twait, St. (2011): High risk high reward: Using the skills and tools of servant leadership to manage risk, in: Strategic Alliance Magazine, Quarter 4, 2011, p. 35-39
